

December 20, 2001

The Honorable Tony Knowles, Governor
Members of the Alaska State Legislature
Public Employees' Retirement Board
Alaska State Pension Investment Board
Employers and Plan Members of the System

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Public Employees' Retirement System (PERS) (System) for the fiscal year ended June 30, 2001. This report is intended to provide comprehensive information on the financial operations of the System for the year. Responsibility for the accuracy of the data, and the completeness and fairness of the presentation rests with the management of the System.

This CAFR was prepared to conform with the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board. Transactions of the System are reported on the accrual basis of accounting. Sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules.

The FY 2001 CAFR is divided into five sections:

- an **Introductory** Section, which contains this letter of transmittal, the administrative organization of the System, and a list of the members serving on the Public Employees' Retirement Board;
- a **Financial** Section, which contains the Independent Auditors' Report, Combining Financial Statements, Notes to Combining Financial Statements, Required Supplementary Information, and Notes to Required Supplementary Information;
- an **Investment** Section, which contains a message from the Chair of the Alaska State Pension Investment Board (ASPIB), a list of members serving on the ASPIB, a report on investment activity, investment results, and various investment schedules;
- an **Actuarial** Section, which contains the Actuarial Certification letter and the results of the most current (June 30, 2000) annual actuarial valuation; and
- a **Statistical** Section, which includes graphs and tables of significant data.

The Alaska PERS was established in 1961 to provide pension and postemployment healthcare benefits for eligible state and local government employees. Normal service, survivor, and disability benefits are available to all members who attain the age and service requirements of the System.

	PERS		
	FY01	FY00	FY99
Net Assets (millions)	\$8,088.4	8,756.6	8,105.4
Participating Employers	150	151	153

Reporting Entity

The System is considered a component unit of the State of Alaska for financial reporting purposes. Because of the closeness of the System's relationship to the State, it is included in the State of Alaska CAFR as a blended component unit.

The Commissioner of the Department of Administration, appointed by the Governor, is responsible for administering the System. In order to meet the statutory requirements of administering the System, the Commissioner appoints the Director of the Division of Retirement and Benefits. The Director is responsible for the daily operations of the System.

The Public Employees' Retirement Board prescribes policies and regulations, hears appeals, and approves employers' contribution rates prepared by the System's independent actuary.

The ASPIB has statutory oversight of the System's investments and the authority to invest the System's monies. Actual investing is performed by external investment firms and investment officers of the Department of Revenue, Treasury Division listed in the Investment Section on pages 44-45. The Treasury Division is responsible for carrying out investment policies established by ASPIB.

Major Initiatives

The System continues to make progress on completing several on-going projects. Most of these efforts focused on improvements in technology, improving methods for members to obtain information about the System and their benefits, and continued compliance with accounting requirements of the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB) as applicable in the circumstances.

During FY 2001, the System granted a discretionary cost-of-living increase, along with the statutorily required automatic cost-of-living increase.

Legislation

During the FY 2001 legislative session; there were three laws that affected the PERS:

Reemployment Retiree Legislation — Legislation just enacted allows certain retirees who return to PERS employment after July 1, 2001, to continue receiving a retirement check while they are employed in a PERS covered position.

House Bill 242 adds an incentive for a retired public employee to return to permanent employment for a PERS employer. With this change, a retired public employee who took normal retirement and has been terminated for at least 30 days may elect a new option when reemployed. The new option:

- must be selected within 30 days of reemployment;
- allows the employee to elect continuation of retirement benefit payments during reemployment;
- would stop additional retirement benefit accrual;
- is not available to those who have chosen Early Retirement;
- is not available to Retirement Incentive Program participants; and
- expires on July 1, 2005.

If the retired public employee does not make the election within 30 days of rehire, the current method would apply. Under the current method, the employee would:

- stop receiving a retirement benefit during reemployment;
- begin making PERS contributions; and
- accrue an additional retirement benefit during the period of reemployment.
- This legislation was enacted to address critical workplace shortages.

Medical Benefits Enhancement — House Bill 242 adds an incentive for public employees to stay in PERS employment. Prior to enactment of this legislation, a retiree who first entered PERS on or after July 1, 1986, is not eligible for full system-paid medical coverage until age 65, regardless of how many years the person is in PERS.

With this change, an employee eligible for the police/fire retirement program who stays in the PERS police/fire program for 25 years, or an “all others” public employee who stays in PERS employment a total of 30 years, will be eligible for full system-paid medical insurance. In addition, all retired public employees who first entered PERS on or after July 1, 1986, and all those employees who first entered PERS on or after July 1, 1996, and meet the medical service requirement will be provided full system-paid medical insurance at age 60.

These incentives were implemented as a method of retaining public employees and attracting second and third career individuals to public employment.

Village Public Safety Officers (VPSOs)

- Bill will not be effective until March 1, 2002, due to a request for an IRS ruling.
- VPSO's will be participating as “all other” employees.
- Bill creates a Regional Public Safety Officer (RPSO) that participates as “police/fire” employees.
- There are 84 VPSOs, 5 RPSOs, and all 8 participating regional corporations will be treated as one employer for employer rate setting.
- Vested VPSOs and non-VPSOs can claim VPSO past service, no longer limited to 5 years.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Public Employees' Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2000. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Additions to Plan Net Assets

The revenues required to finance retirement benefits are accumulated through a combination of employer and employee contributions and investment income.

	Revenues			
	Millions		Inc/(Dec)	
	FY01	FY00	Amt	%
Plan Member Contributions	\$ 95.0	92.7	2.3	2.5%
Employer Contributions	96.5	107.6	(11.1)	(10.3%)
Net Investment Income (Loss)	<u>(478.3)</u>	<u>790.3</u>	<u>(1,268.6)</u>	(160.5%)
Total	<u>\$(286.8)</u>	<u>990.6</u>	<u>(1,277.4)</u>	(129.0%)

The decrease in employer contributions was primarily due to a no new RIP contributions in FY01. The decrease in investment income is discussed in the Investment Report beginning on page 46.

Deductions From Plan Net Assets

The primary expense of the System is the payment of pension benefits, the principal reason the System exists. These benefit payments, together with postemployment healthcare premiums, lump sum refunds made to former members, and the cost of administering the System comprise the costs of operation.

	Expenses			
	Millions		Inc/(Dec)	
	FY01	FY00	Amt	%
Pension Benefits	\$ 259.7	239.4	20.3	8.5%
Healthcare Benefits	103.9	83.8	20.1	24.0%
Refunds of Contributions	13.1	12.0	1.1	9.2%
Administrative Expenses	<u>4.7</u>	<u>4.3</u>	<u>0.4</u>	9.3%
Total	<u>\$ 381.4</u>	<u>339.5</u>	<u>41.9</u>	12.3%

The majority of the increase in pension benefits was the result of a continuing increase in the number of retirees. Also, the System granted a discretionary cost-of-living (post retirement pension adjustment (PRPA)) increase at the beginning of the fiscal year. The increase in health care benefits is due to the increase in retirees and rising costs of providing such benefits.

Investments

The investment of pension funds is a long-term undertaking. On an annual basis, ASPIB reviews and adopts an asset allocation strategy to ensure the asset mix will remain at an optimal risk/reward level given the System's constraints and objectives. During FY 2001, ASPIB adopted an asset allocation that includes 41% in Domestic Equities, 17% in International Equities, 30% in Domestic Fixed Income, 5% in International Fixed Income, and 7% in Real Estate.

For FY 2001, PERS investments generated a -5.25% rate of return. The PERS annualized rate of return was 4.87% over the last three years and 9.35% over the last five years.

Funding

The overall objective of a pension fund is to accumulate sufficient funds to meet all expected future obligations to participants. The contribution requirements are determined as a percentage of payroll, and reflect the cost of benefits accruing in FY 2001 and a rolling amortization of the funding target surplus or the unfunded target accrued liability. The amortization period is set by the Board. Contribution levels are recommended by the Actuary and adopted by the Board each year. Over time, the contribution rate is expected to remain constant as a percentage of payroll. The ratio of assets to liabilities decreased slightly from 105.5% to 101.1% during the year. Over the years, progress has been made toward achieving the funding objectives of the System.

There were significant changes in the actuarial assumptions and actuarial methods used in the determination of System liabilities this year. The member data used to determine system liabilities is as of June 30, 1999, projected using standard actuarial techniques to June 30, 2000. The assumptions and methods, when applied in combination, fairly represent past and anticipated future experience of the System.

The FY 2002 consolidated rate decreased from 8.67% to 8.07%, producing a total average rate for all employers in the System of 6.75%.

Valuation Year	Millions	
	2000	1999
Valuation Assets	\$7,454.8	7,016.3
Accrued Liabilities	7,376.9	6,648.7
Funding ratio	101.1%	105.5%

Professional Services

Professional consultants are retained to perform professional services that are essential to the effective and efficient operation of the System. Opinions of the independent certified public accountant and the consulting actuary are included in this report. A list of consultants is provided in the Introductory Section with the exception of investment professional consultants, who are listed in the Investment Section of this report.

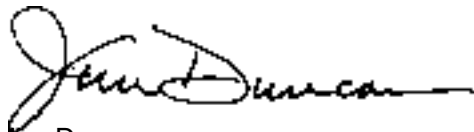
Acknowledgments

The preparation of this report is made possible by the dedicated service of the staff of the System. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means of determining responsible stewardship of the funds of the system.

The report is being mailed to all employer members of the System. They form the link between the System and the membership. Their cooperation contributes significantly to the success of the System. We hope the employers and plan members find this report informative.

December 20, 2001

We would like to take this opportunity to express our gratitude to the Public Employees' Retirement Board, the Alaska State Pension Investment Board, the staff, the advisors, and to the many people who have worked so diligently to assure the successful operation of the System.

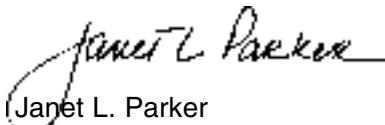


Jim Duncan
Commissioner

Respectfully submitted,



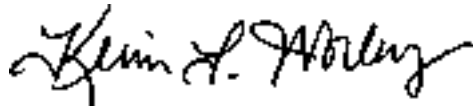
Guy Bell
Director



Janet L. Parker
Deputy Director



Anselm Staack, CPA, JD
Chief Financial Officer



Kevin T. Worley, CPA
Defined Benefits Accounting Supervisor

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Alaska Public Employees' Retirement System

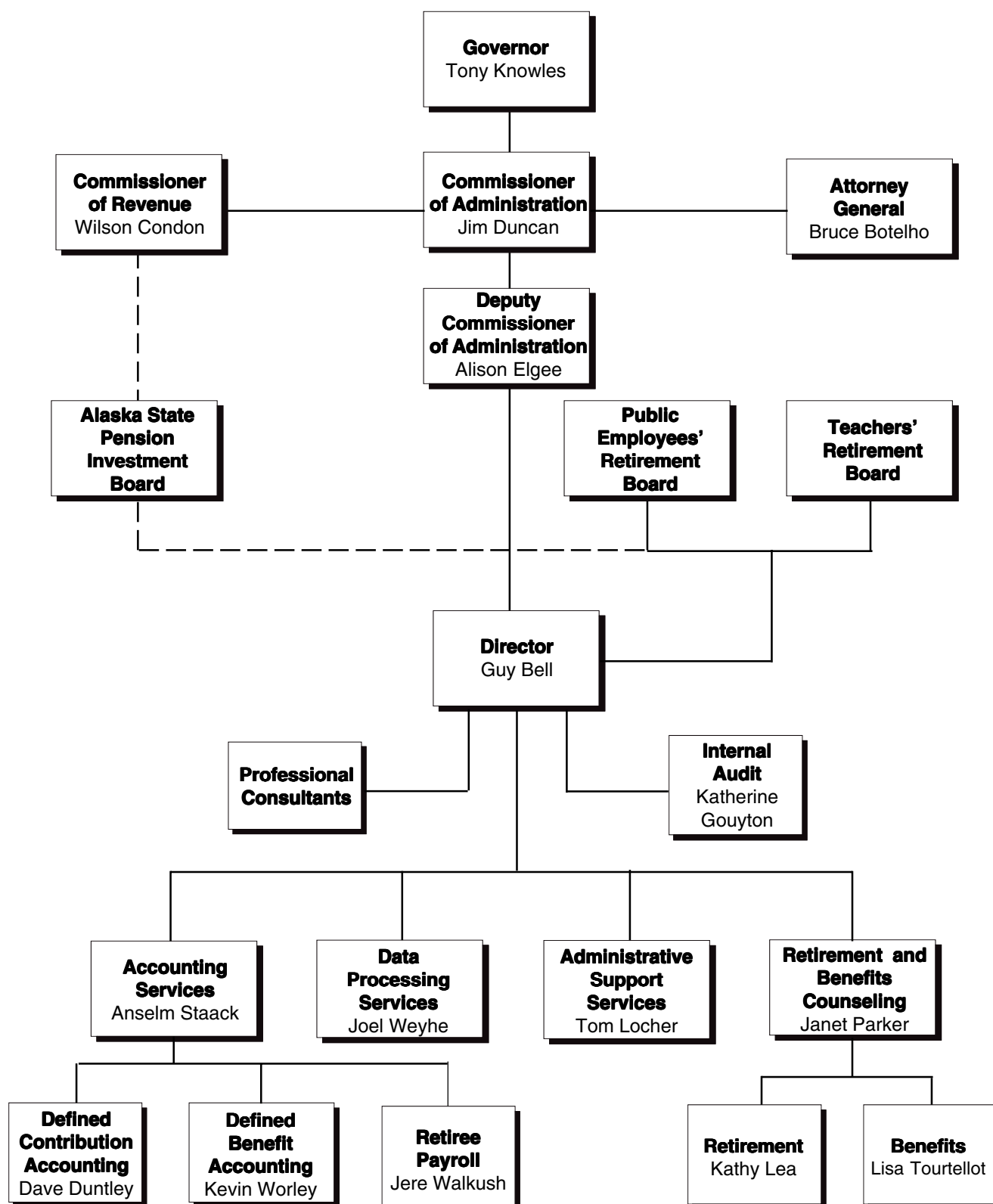
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2000

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Thomas A. Brown
President
Jeffrey L. Eason
Executive Director

ORGANIZATION CHART



Section Responsibilities

The **Retirement Section** is responsible for providing comprehensive retirement counseling to the participating members and employers in the plan. The section appoints members to retirement benefits and maintains benefit payment information.

The **Benefits Section** is responsible for the administration of group health, disability, and life insurance. This section provides benefits counseling and plan change information to the membership.

The **Defined Benefit Accounting Section** is responsible for maintaining the employee and employer records and accounts in each of the defined benefit plans administered by the Division of Retirement and Benefits, producing financial statements and reports, and assuring compliance with the Internal Revenue Service requirements for defined benefit plans.

The **Defined Contribution Accounting Section** is responsible for accounting, plan operations, and financial activities related to the defined contribution plan systems administered by the Division.

The **Data Processing Services Section** supports the information systems the Systems use. Responsibilities include planning, development, data base design, programming, and operational support of the data processing systems, including the Local Area Network.

The **Administrative Support Services Section** is responsible for budget preparation, fiscal management of appropriations, procurement of professional services, supplies, and equipment. The section manages the systems' record center containing the member's physical records and performs other administrative functions such as legislative tracking and personnel management.

The **Retiree Payroll Section** is responsible for issuing monthly and on-demand retirement benefit payments to eligible retirees or their beneficiaries. The section maintains accurate records for reporting benefit recipient tax statements and reporting and paying withheld income taxes, garnishments, and IRS levies.

PROFESSIONAL CONSULTANTS	
Consulting Actuary William M. Mercer, Incorporated <i>Seattle, Washington</i>	Legal Counsel John Gaguine Kathleen Strasbaugh Assistant Attorney General <i>Juneau, Alaska</i>
Independent Auditors KPMG LLP <i>Anchorage, Alaska</i>	Legal Counsel - Retirement Boards Wohlforth, Vassar, Johnson & Brecht <i>Anchorage, Alaska</i>
Benefits Consultant Deloitte & Touche, LLP <i>Minneapolis, Minnesota</i>	Consulting Physicians Kim Smith, M.D. William Cole, M.D. <i>Juneau, Alaska</i>
Third Party Health Claim Administrator Aetna Life Insurance Company <i>Walnut Creek, California</i>	

A list of external money managers and consultants for the System can be found on pages 44-45, and the Schedule of Investment Management Fees on pages 53-54.

PUBLIC EMPLOYEES' RETIREMENT BOARD



James "Pat" Wellington, Chair

Term Expires: April 5, 2002

Pat Wellington was born in Ketchikan, Alaska and graduated from Douglas High School. He served two years in the U.S. Army and started his law enforcement career with the Seward Police Department in late 1955. He served as Deputy U.S. Marshal, Alaska State Troopers; Chief of Police of Juneau; Deputy Commissioner and Commissioner of the Department of Public Safety; and retired in 1977 as Director of the Alaska State Troopers. Mr. Wellington is also a trustee of the Alaska State Pension Investment Board.



Charles Borg, Vice Chair

Term Expires: June 20, 2004

Charles Borg resides in Anchorage. Raised in Washington, he graduated from Eastern Washington University in 1960 and began his career in the Army Infantry the same year. His military assignments included two tours of duty in Vietnam, infantry troop assignments in Europe, Alaska Director of Selective Service, and duty on the Army staff at The Pentagon.

After his retirement from military active duty, he joined Alaska State government serving as Director of Veterans Affairs, and Deputy Commissioner of the Department of Military and Veterans Affairs. From 1991 to 1999, Mr. Borg served as Director of Managed Health Care at Elmendorf Hospital and federal health care coordinator for Veterans Affairs.



Bette Reed

Term Expires: June 20, 2006

Bette Reed has lived in Alaska since 1962. She is a graduate of Bellevue School of Nursing in New York City, Matanuska-Susitna College, and the University of the State of New York. Bette is retired from the Mat-Su Borough School District where she was employed as a school nurse. Prior employment includes hospitals in Anchorage as well as New York, Connecticut, and Maine. She is an active member of NEA-Alaska Retired. She also volunteers at Mat-Su schools and Alaska Health Fairs. Her husband, Gene, also a PERS member, is retired from the Municipality of Anchorage.



Frank Narusch

Term Expires: April 24, 2006

Frank Narusch has been an Alaskan resident since 1952. Raised in the coal mining camp of Suntrana on the Healy River, he boarded away to attend high school at Monroe High School in Fairbanks and Copper Valley School in Glennallen. While attending Seattle University, he worked summers commercial fishing in Cordova, coal mining in Suntrana, and surveying and inspecting projects around Fairbanks and Valdez for the Department of Highways (now DOT&PF). After receiving a degree in civil engineering in 1966, he began his professional career with the Department of Highways. During his 31 years of State employment, he held positions as Construction Project Manager, Regional Materials Engineer, Contract Claims Engineer, and Professional Services Chief. While with the State, he was active with the Alaska Public Employees Association.

He enjoys weekly breakfast get-togethers with retired friends as well as summer travel, camping, and exploring back roads around the State.



Don Hoover

Term Expires: June 20, 2002

Don Hoover resides in Fairbanks. He was born and raised in Washington, and graduated from Gonzaga University in 1952. He served in the US Navy from 1944-1946 in the Pacific Area prior to college. He moved to Alaska in 1956 and began a 22 year career in banking in Fairbanks and Nome. He also is a graduate of the Pacific Coast Banking School at the University of Washington in 1963. During his ten years in Nome, he served two terms as Mayor of Nome.

In 1978 he joined the State Department of Commerce until retirement in July 1985. He was appointed to the Older Alaska Commission on Aging (later the Alaska Commission on Aging) in 1994 and was a delegate to the White House Conference on Aging in 1995. He remained on the Commission on Aging until June 1, 2000. While on the Commission, he was also on the Pioneer Home Advisory Board for 6 years.

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